

CITY OF VAN HORNE

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

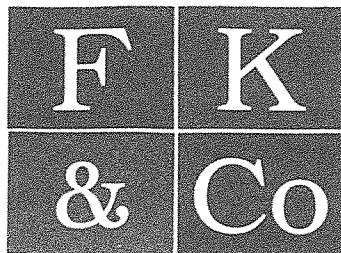
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City of Van Horne

Officials

		Term
<u>Name</u>	<u>Title</u>	<u>Expires</u>
<u>(Before January 2016)</u>		
Martin Junge	Mayor	Jan 2016
Steve Allman	Council Member	Jan 2018
Mary Rausch	Council Member	Jan 2016
Jim Parmenter	Council Member	Jan 2018
Rebecca Norton	Council Member	Jan 2018
April Carlson	Council Member	Jan 2016
Linda Klopping	City Clerk	Indefinite
Jennifer Zahradnik	City Attorney	Indefinite
<u>(After January 2016)</u>		
Martin Junge	Mayor	Jan 2018
Steve Allman	Council Member	Jan 2018
Connie Donald	Council Member	Jan 2020
Jim Parmenter	Council Member	Jan 2018
Rebecca Norton	Council Member	Jan 2018
Hank Hoopes	Council Member	Jan 2020
Linda Klopping	City Clerk	Indefinite
Jennifer Zahradnik	City Attorney	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated December 15, 2014 on the City of Van Horne, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated December 15, 2014 and the current status of the City's implementation of the recommendations included in that report.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Van Horne and other parties to whom the City of Van Horne may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Van Horne during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

October 17, 2016

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Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated December 15, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

Current Status – Not corrected. The recommendation is repeated.

- (C) Clerk's Report – A monthly Clerk's report, including a summary of revenues, disbursements, ending balances by fund and a budget vs actual comparison, is not prepared.

Recommendation – The City Clerk should prepare a monthly Clerk's report which includes a summary of receipts, disbursements and ending balances by fund. Also the Clerk's report should show a budget vs actual comparison. The City Council should review and approve the Clerk's report monthly.

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Current Status – Not corrected. The recommendation is repeated.

- (D) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the public works, culture and recreation, and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” Also there was no evidence in the City Council minutes that the budget was passed by resolution, as required by Chapter 384.16(5) of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The City should also ensure that all future budgets are passed by resolution, as required by Chapter 384.16(5) of the Code of Iowa.

Current Status – Not corrected. Actual expenses for the year ended June 30, 2015 exceeded the budget in the public works, culture and recreation, community and economic development and capital projects functions. There was no evidence in the City Council minutes that the fiscal year 2016 budget was passed by resolution.

- (E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (F) Official Depositories – A resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa, but the amount was not included.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

Current Status – Not corrected. The recommendation is repeated.

- (G) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records.

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Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records.

Current Status – Not corrected. The recommendation is repeated.

- (H) Separately Maintained Records – The Library maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

Current Status – Corrected. The Friends of the Van Horne Public Library disbanded after spending all the remaining money on the new library.

- (I) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 25% for street improvements and 75% for utility improvements. All of the local option sales tax receipts are recorded in a special revenue fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

Current Status – Not corrected. The recommendation is repeated.

- (J) City Council Minutes – The following were identified:

- The City Council went into a closed session on April 14, 2014. The vote of each member to go into a closed session was not documented as required by Chapter 21.5 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for some meetings tested.

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Report on the Status of Periodic Examination Findings and Recommendations

- The garbage rate was not set by ordinance.

Recommendation – The City should comply with Chapters 21.5 and 372.13(6) of the Code of Iowa. In addition, the City should ensure the total disbursements from each fund and summary of all receipts are published as required, and establish an ordinance in relation to the current garbage rates charged to customers.

Current Status – Partially corrected. For the City Council minutes tested, the Council did not have a need to go into closed session. The City Council minutes tested did not include total disbursements from each fund and a summary of all receipts. The City Council has not established an ordinance regarding the current garbage rates charged to customers.

- (K) **Financial Condition** – At July 31, 2014, the City had deficit balances of \$6,100 and \$957,951 in the Debt Service and Capital Project Funds, respectfully.

Recommendation – The City Council should investigate alternatives to eliminate these deficits and return the funds to a sound financial position.

Current Status – Not corrected. At May 31, 2016, the City had deficit balances of \$75,073 and \$966,761 in the Debt Service and Capital Project Funds, respectfully.

- (L) **Bank Reconciliations** – Although monthly bank reconciliations were performed, the reconciliations contained outstanding items that were inaccurate.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

Current Status - Not corrected. The recommendation is repeated.

- (M) **Tax Increment Financing (TIF)** – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects.

Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount

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of reductions resulting from the reduction of debt or any other reason to the County Auditor.

During fiscal year 2013, the City paid principal and interest on two of its general obligation bonds from the Special Revenue, Tax Increment Financing Fund through transfers to the Debt Service Fund. However, in fiscal year 2013 the City transferred \$3,465 more from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund than the related debt payments due in fiscal year 2013. City personnel could not explain how the \$3,465 was spent on TIF related activities.

Recommendation – The City should work with TIF legal counsel to resolve this situation.

Current Status – Not corrected. During fiscal year ended June 30, 2016, the City transferred \$423 more from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund than the related debt payments due in fiscal year 2016. City personnel could not explain how the \$423 was spent on TIF related activities.

- (N) Annual Urban Renewal Report (AURR) – As of June 30, 2013, the City understated the amount reported as TIF debt outstanding on the AURR Levy Authority Summary by \$35,750.

Recommendation – The City should ensure the balances reported on the AURR Levy Authority Summary agree with the City's records.

Current Status – Not corrected. The recommendation is repeated.

- (O) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (P) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

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Name, Title, and Business Connection	Transaction Description	Amount
Martin Junge, Mayor Owner of O'Gradys	Supplies	\$807

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with Martin Junge does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

Disclosure Only – During the period tested, business transactions between the City and City officials and employees totaled \$2,111. This does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

- (Q) Transfer and Journal Entry Documentation – Supporting documentation was not maintained for all transfers and journal entries. Additionally, all transfers and journal entries were not approved.

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers and journal entries. Additionally, all interfund transfers should be evidenced by approval in the minutes or budget, as applicable. Journal entries should be approved by an independent person and evidence of the approval should be documented.

Current Status – Corrected. For the period tested, there were no journal entries performed by the City Clerk. Transfers were approved by resolution at year end by the City Council.

- (R) Water and Sewer Revenue Notes – The provisions of the water revenue and sewer revenue note resolutions requires the City produce net operating receipts equal to at least 110% of the principal and interest on notes falling due in the same year. The City's fiscal year 2014 net water receipts of (\$2,456) were less than 110% of the \$24,960 of water revenue bond principal and interest due during fiscal year 2014. The City's fiscal year 2014 net sewer receipts of \$54,135 were less than 110% of the \$56,978 of sewer revenue bond principal and interest due during fiscal year 2014.

The provisions of the water revenue and sewer revenue notes also require sufficient monthly transfers to be made to separate revenue note sinking accounts for the purpose of making the note principal and interest payments when due. The City has not made the required transfers to these accounts.

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Recommendation – The City should review its water and sewer rate structure and expenses and adjust to ensure collection of net receipts of at least 110% of the principal and interest payments falling due in the same year. The City should also ensure sufficient monthly transfers are made to the water revenue and sewer revenue note sinking accounts as required.

Current Status – Not corrected. The recommendation is repeated.

- (S) Receipt Coding – The City overpaid \$3,800 in interest on a general obligation bond. The interest was paid from the Debt Service Fund; however, the \$3,800 later received from the bank as a refund for this overpayment was credited to the General Fund. It would appear the \$3,800 reimbursement should have been credited to the Debt Service Fund instead of the General Fund.

Recommendation – The City should transfer \$3,800 from the General Fund to the Debt Service Fund. In addition, in the future the City should implement procedures to ensure all receipts are coded to the proper fund.

Current Status – Partially corrected. The City transferred the money from the General Fund to the Debt Service Fund. However, procedures have not been implemented to ensure receipts are coded properly.